

Massachusetts School Building Authority

Finishing the Wait List and Proposed
Regulations for Reformed School Building
Grant Program

July, 2006

Treasurer Tim Cahill, Chairman
Katherine Craven, Executive Director

Update on MSBA Activities

- Finishing the Wait List
 - Creative Financing Options from MSBA
 - Grant Conversion Program (FY2007 GAA)
 - Loan Program (FY2007 GAA)
- Payments to Cities, Towns and Regional School Districts
- Status of Audits for Projects
- New Regulations and New Process

Finishing the Wait List

- **ACCELERATED PAYMENTS:** Completed projects on the wait list, including repairs, can be reimbursed by MSBA by end of 2006
- **PROJECT FUNDING AGREEMENTS:** 29 projects are being reimbursed monthly by MSBA
 - MSBA will not be reimbursing BAN interest for projects incurring interest after date certain
- **AUDITS:** Completed projects should have auditors assigned for final audit by MSBA

Financing Options for Wait List Projects

- **OPTION 1: IF you have multiple projects on the wait list,**
 - And do not think you can complete construction by July, 2009
 - And you are experiencing cost increases which MSBA is not reimbursing
 - You could be eligible for our **GRANT CONVERSION PROGRAM**

Grant Conversion Program Procedures

- ✓ Submit Letter of Intent to MSBA by 8/31/06 (template will be avail by end of week)
- ✓ Applies to construction commenced after 1/2005 and substantially complete by 7/2009
- ✓ Submit current budget for project to receive conversion grant
- ✓ Make sure that the MSBA is not waiting for audit materials for older projects
- ✓ Make sure that the Project Funding Agreement has been signed for Wait List Projects
- ✓ MSBA will reallocate grant amounts from forfeited project for another project over budget
- ✓ CAUTION: MSBA share cannot exceed initial reimbursement rate nor original scope of project accepted by DOE

Financing Options for Wait List Projects

- **OPTION 2: IF you have projects that start construction after 1/2005**
 - And you plan on completing the project by 7/2009
 - And you are experiencing cost increases not reimbursed by the MSBA
- **You could be eligible for our ONE TIME DISTRESSED COMMUNITY SCHOOL CONSTRUCTION LOAN PROGRAM**
- **MSBA is making \$150M available in subsidized loans for projects started after 1/2005**
 - Community must have submitted all audit materials and have signed a Project Funding Agreement

Loan Program

- Up to 30 year amortization, 2% rate
 - 30 year amortization as Qualified Bond
 - 25 year amortization as non-QB
- \$150M total loan program from MSBA
 - Loan amounts will be contingent upon pool of applicants
- Preliminary applications due to MSBA by 8/31/06 (documents available by end of week)
- Loans only applicable for scope and items authorized by DOE
- Every community responsible for community share of product
- Loan amounts will also be contingent upon clarity, detail and completeness of project budgets

MSBA Accomplishments to Date

- Payments to Communities by end of 2006:
\$3.75B
 - Accelerated payments of approximately \$3B for the Wait List projects
- Over 190/800 Audits Complete
 - Almost every completed project has been assigned to a CPA firm
- Implemented Monthly Progress Payments
- Redrafted Entire Program Regulations
 - Comment period extended until end of July, 2006

MASSACHUSETTS SCHOOL BUILDING AUTHORITY
AUDIT STATUS REPORT
As of July 19, 2006

<u>Total Number of Projects</u>	<u><u>1,156</u></u>
Projects Audited and Approved by DOE	353
Projects to be Audited and Approved by MSBA	<u>803</u>
	<u><u>1,156</u></u>

MSBA Projects

New / Renovations	603
Repairs	157
Progress Payments	29
DOE audits re-opened	1
Started by DOE (Not Approved)	14
	<u><u>804</u></u>

	Not Ready for Review	Ready for Review	Assigned & Scheduled	Assigned & Started	Completed Pending MSBA Review	Completed Draft to District	Completed District Appealed (1)	Completed District OK Pending Board Approval	Completed Board Approved (2)	Total
New / Renovations	71	3	90	217	40	11	29	12	131	604
Repairs	60	11	0	6	20	0	0	0	59	156
Progress Payments	29									29
Started by DOE		8	6							14
	<u>160</u>	<u>22</u>	<u>96</u>	<u>223</u>	<u>60</u>	<u>11</u>	<u>29</u>	<u>12</u>	<u>190</u>	<u>803</u>

Comments:

(1) 15 appeals relate to projects audited by the DOE.

(2) Includes 18 projects audited by the DOE and approved at MSBA 3/05 Board meeting.

Goals of 2004 School Building Assistance Reform Legislation

- Former Program needed reform
 - 428 projects built up on a Waiting List
 - 10-15 year wait for state funding
 - Committed over \$11 Billion in state funding without dedicated funding source
 - Audit backlog of over 800 projects
 - Little control or oversight
- Create consistent, affordable and reliable funding stream for school building grants from State to Municipality: sales tax carve-out
- Force program to live within an annual grant-writing budget
- Create centralized process and Authority oversight for stewardship of how Commonwealth funds are expended locally on school projects
- Eliminate waiting list for indefinite payment from the State
- Have Authority finance State share, Locals finance own share

Immutable Facts about MSBA

- Annual grant distribution cap
- Priority for MSBA funding based upon need, not local readiness for project
- Reimbursement rates set in statute
- Enhanced legal oversight of state tax dollars used for local school construction
- Emphasis on Pre-Design planning
- No Wait List
- Audit and Pay as You Build
- Relationship Governed by Clearly Written Agreements
- No Long Term Financial Relationship
- No Entitlement to Funds unless specifically granted by MSBA

Goals of 2006 Authority School Building Grant Regulations

- Authority involvement in process from initial description of problem through project approval, construction and completion
 - Municipality and Authority will agree on the scope and cost of projects
- Create a No Cost Application Process for Municipalities until Authority approves a project
 - Not all projects will be approved: Convey the good and bad news early to local officials
 - Cost of Master Plans still borne locally
- Develop a process that lives within the Authority's legal budget for school construction grants
- Authority pays for reasonable planning process for projects, including feasibility studies, facility assessments and building commissioning

Goals of 2006 Authority School Building Grant Regulations

- Help ensure that when building schools, form follows function, not the other way around
 - Insistence on well-developed educational goals and operating budget to run the buildings and program
- No longer “One Size Fits All” approach to school sizing or cost standards
- Eradicate inconsistent application of old regulations
- Match Authority funding with Project Cash Flow
= Lower Municipal Tax Burden= Better Local
Votes for Projects

Reformed School Building Grant Program has Statutory Constraints

- New School Building Grant Program funded solely by 1-cent of 5-cent statewide sales tax, phased in over time
- New School Building Grant Program begins making grants, according to new regulations, in FY2008 in an amount not to exceed \$500M of Authority share (grows at 4.5% or rate of sales tax growth)
 - The Authority's cumulative annual spending limit in the first five years of the new program may total approximately \$2.7 Billion
- Moratorium on new applications has been in place since June 30, 2003 and Authority cannot vote to approve new projects for funding until after July 1, 2007

Other Statutory Facts about New Program

- Applications will be approved based upon many criteria, including,
 - The need for the project according to PRIORITY CRITERIA established in Chapter 70B, section 8
 - The AUTHORITY's judgment pursuant to Chapter 70B, section 6 that the project is in the “best interests of the Commonwealth,”
- Authority has requirements to standardize and manage formerly disparate elements of program, including
 - Enrollment projections
 - Standard contract language with vendors
 - Approval of Project Managers
 - Prototypical school building designs

Other Statutory Requirements

- Once a project is approved by Authority, reimbursement rates established by Chapter 70B:
 - 31% base rate
 - Ability to pay percentage points given on a sliding scale based on school district income, property values and students in federally sponsored free or reduced lunch programs
 - Incentive percentages allocated for green design, maintenance of buildings, renovations vs. new, innovative community use, private fundraising
- New reimbursement rates range from 40% to 80%, but don't assume a 10% cut (could be more)
- Contractual arrangements for projects have to be satisfactory to the Authority, Project Managers have to be approved by the Authority

New Regulations Development Process: Outreach and Research

- Over a year ago, Authority staff began meeting with working groups and representative superintendents, school committee members, school building committee members, mayors, teachers' unions, local officials, architects, other state officials
- Statute mandated that Needs Survey of 1,817 local schools be used to formulate regulations
- Review of DOE regulations: what works, what doesn't
- Review other states' best practices
- Review other Massachusetts capital construction agencies' best practices
- Include new mandates from the statutes that created the Authority

What is new?

- Application process begins with local determination of a problem, not a solution
- No designs or local votes required until project is approved by Authority
- Authority procures and pays for enrollment projections, feasibility studies, facilities assessments, commissioning
- Sliding scale for school sizes based upon enrollment
 - New size standards more sensitive to actual building layouts
- Quicker Payments: “Pay as you Build”: Approved projects will not wait indefinitely for state funding
- Approval for Authority funding based upon local need in the context of statewide evaluation and statutory criteria, not self-determined need
- Project scope will be defined by collaborative process between the Municipality and the Authority

What is new?

- School Building Committees will exist and Authority encourages central decision making by authorized person at the municipal level
- Focus on maintenance: statutory requirements will be adhered to and the Authority will provide Maintenance Trust Fund match to eligible communities
- Owner's Project Managers will be an essential go-between in process
- Local financing costs will not be eligible
- Projects unable to start because of local circumstances will lose their approved status and those funds will be given to another project

What is the Same?

- State review of expenditures, designs and insistence on complete documentation
- Ineligible costs of old program remain ineligible: site procurement, district administrative space, costs over agreed upon budget, field houses, swimming pools, ice rinks
- Special Education exceptions will still be considered if District demonstrates that size standards are inadequate
- Process of building a school is not longer or shorter because of new regulations—Authority is just involved earlier
- Long range master planning still required at District level
- Suspension of payments for failure to submit required information, reclaim the depreciated costs of closed school
- 50 year anticipated useful life for a school buildings

Statement of Interest

- DEADLINE: July 31, 2007
- This is a Pre-Application: describe the facilities problem, initial engagement of the Authority
- This should cost nothing other than usual staff time to complete: No reimbursement for any costs incurred in submitting SOI
- The Authority will do due diligence on basis of SOI and invite communities to apply on that basis

New Application Process

- After MSBA does Statement of Interest due diligence (validate enrollment, validate building condition including perform facilities assessment if necessary), and the MSBA will accept an application, then:
 - ✓ Community develops Educational Goals Plan for any needed project [MSBA on-line template]
 - ✓ Community produces Operating Budget review to support the Educational Goals
 - ✓ All alternatives (redistricting, renovations, rentals, etc) exhausted
 - ✓ Community and MSBA meet for Pre-Study Review Conference
 - ✓ MSBA and Community initiate Feasibility Study

Intensive Pre-Design Planning Process Yields Better Results

- Goal: Feasibility Studies should be informed by educational goals, available operating resources to achieve those goals, realistic enrollments, realistic site assessments.
 - *“Defining exact need*
 - *Coordinating the project with institutional policy*
 - *Creating a project program, a project budget and a project schedule”*

» *From the Society for College and University Planning*

Designer Selection Panel

- Designer selection board exemption for school projects funded by MSBA allowed in recent legislation (section 6 of c. 122, 2006)
- GOAL: Standardize the A/E selection process, ensure “highest quality” under C.7, MGL
- Include local and educator participation on the DSP
- Include architects, planners and engineers on the DSP
- Local communities will select designers based upon recommendations of DSP

New Application Process

- Feasibility Study benchmarks will be reviewed locally and at MSBA
- If MSBA can financially give the “green light” for a project, the Community and MSBA will agree upon scope, budget, and time frame for project. Minimum Reimbursement Rate will be allocated to community at this time by MSBA.
- Community needs to get local support for local share of financing, MSBA will give time limited commitment to Community for certain reimbursement amount from MSBA for agreed upon project

Scope of Work

- Audit Ineligible Costs:
 - Guidelines, some suggestions to put into regs
- Project Scope, Cost and Timeframe
 - Agreement between Community and MSBA about what are eligible reimbursable expenditures
 - Eliminate surprises in the course of construction

Community-MSBA Involvement at Each Step of Process

- ✓ Eligible Applicant and School Building
Committee roles: definition and communication
- ✓ Statement of Interest: voted on locally
- ✓ Pre-Study Review conference: agreement
between MSBA and Community
- ✓ Educational Goals and Budget Review:
formulated locally with community participation
and discussed with MSBA
- ✓ Feasibility Study: Community controls the
process within MSBA parameters
- ✓ Project Scope, Cost and Timeline: Need to be
discussed locally once agreement with MSBA is
reached on these items

How will the application process work?

- Remember: First year is complicated because the Authority cannot legally approve or deny an application prior to July 1, 2007
- Statements of Interest will be the “front door” for further application to MSBA
- Applications may be kept at the Authority if community needs more time for site selection, local approvals, etc. or if the Authority does not have funding in a particular fiscal year
- Some applications will receive rejections, early in the process, if the problem does not warrant Authority funding
- Some applications will be carried over until funding is available
- Approved projects will receive funding guarantees from the Authority prior to local vote on project funding

Goal: Foster Collaboration and Reasonable Expectations between Municipalities and Authority

- Authority staff will work with communities individually to get projects ready for Authority and local approval or give early indication that project will not be approved
- Authority will provide funding early in the process
- Authority will provide funding guarantees prior to local appropriation votes for project
- Authority will not over-promise—no commitment if we don't have the money
- Communities need to work with the Authority to establish reasonable project timelines and expectations for why, when, where and what will be funded by the Authority